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SUBJECT: NICARAGUAN CUSTOMS TAXES FTZ TRASH

11. (SBU) Summary: Apparel and furniture manufacturers complain that in March 2008, Nicaraguan Customs began to tax fabric scraps and trimmings disposed of in local landfills as "exports," levied upon an arbitrary value based on weight. The government has temporarily backed off this new trash tax after manufacturers complained directly to President Ortega. End summary.

12. (SBU) Apparel and furniture manufacturers recently complained to Econoff that in March 2008, Nicaraguan Customs (DGA) began to tax fabric scraps and trimmings disposed of in local landfills as "exports." One furniture manufacturer, Justin Westbrook, reports that DGA had attempted to impose a charge of \$0.50 per kilogram. Rather than pay what would amount to \$9,000 in taxes per month on his trash, Westbrook began to store his waste in an unused part of his manufacturing facility that he had planned to bring into operation this year. Westbrook said the fee would put his company, Mubletex, out of business.

13. (SBU) Scott Vaughn, President of the Nicaraguan Textile and Apparel Manufacturers Association (ANITEC), argued that the waste produced by his company and others has no commercial or transaction value and should therefore not be subject to taxation when removed from the Free Trade Zones (FTZs) in which they operate. His company, Rodeses Apparel, faces waste disposal fees of \$2,000 a month. He reports that the local DGA officials plan to assess a \$0.10 per kilogram tax on his trash. Vaughn and Westbrook complain that, without a transaction value on which to base customs duties or VAT, DGA authorities have assigned arbitrary tax rates based on weight. They report that these rates vary widely, depending on the manufacturer.

14. (SBU) Edmundo Guerrero, the DGA representative for the FTZ where Westbrook operates, argues that Muebletex' waste does indeed have value as it is often removed from landfills by scavengers who later use the scraps and trimmings to stuff mattresses and weave rugs. In a June 2008 meeting between ANITEC and DGA leadership, DGA Deputy Director Wilfredo Altamirano argued that Technical Circular 100/2006 authorizes them to collect duties and VAT on waste. Econoff received a similar explanation from DGA staff in response to June 2008 letter to DGA Director Eddy Medrano.

15. (SBU) At the June meeting between ANITEC and DGA, ANITEC Executive Director Dean Garcia countered that the circular requires manufacturers to submit monthly reports to DGA detailing the type and quantity of fabric disposed of and the mode of disposal, but is silent on the mode of disposal and the collection of taxes and fees. Free Trade Zone Commission Technical Secretary Alvaro Baltodano and ProNicaragua Executive Director Javier Chamorro have expressed sympathy with ANITEC's position.

16. (SBU) In a follow-up conversation with Econoff, Scott Vaughn reported that DGA has temporarily backed off on collecting taxes on trash after a group of FTZ investors brought the issue to the attention of President Ortega in late June. However, Vaughn believes formal repeal of the tax is unlikely, given the government's constant search for creative ways to maintain leverage

over FTZ companies.

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